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Message Text

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PAGE 01 PARIS 03208 021205Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01
OMB-01 SS-15 STR-07 CEA-01 DODE-00 NSCE-00 SSO-00
USIE-00 INRE-00 L-03 H-01 PA-01 PRS-01 IO-13
AGRE-00 OES-07 DOE-11 SOE-02 INT-05 DOTE-00
DOEE-00 ABF-01 FS-01 OPR-02 A-01 PER-01 /122 W
----------004075 021217Z /17
O 021152Z FEB 78
FM AMEMBASSY PARIS
TO DEPARTMENT OF TREASURY IMMEDIATE
SECSTATE WASHDC IMMEDIATE 5163

C O N F I D E N T I A L PARIS 03208

PASS EB/EUR (STATE) AND FEDERAL RESERVE

E. O. 11652: GDS
TAGS: EFIN, FR
SUBJECT: PARIS FOREIGN EXCHANGE MARKET

REF: (A) PARIS 3075, (B) PARIS 2793

1. IN A THIN MARKET DURING LATE AFTERNOON TRADING FEBRUARY 1, SEVERAL LARGE COMMERCIAL SALES OF FRANCS INITIATED A SELLING WAVE WHICH GATHERED STRENGTH THIS MORNING IN EUROPEAN MARKETS. RECENT EXCHANGE RATE CHANGES VIS-A-VIS THE FRANC HAD LED SOME PARIS FOREX TRADERS TO BELIEVE THAT THE FRANC WAS IN THE OPENING PHASE OF RELATIVE WEAKNESS UNTIL THE MARCH ELECTIONS. AS OF YESTERDAY, THE MAJORITY OF PARIS FOREX TRADERS CITED THE LACK OF INTEREST IN FORWARD COVER AND LOW MARKET VOLUMES AS SIGNS THAT THE FRANC WOULD REMAIN RELATIVELY FIRM. ALL AGREED THAT DEMAND FOR THE DOLLAR WAS FEEBLE AND THAT THIS WAS HELPING THE FRANC TO HOLD ITS OWN. ALL THIS CHANGED
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QUICKLY, AND MOST PARIS FOREX MARKET TRADERS WERE SURPRISED.

2. AS OF NOON FEBRUARY 2, MUCH HIGHER EUROFRANC INTEREST RATES, A SHARP RISE IN THE SUISSE VERSEMENT RATE, AND A HEAVIER VOLUME OF GOLD SALES IN PARIS -- THE CLASSIC INDICATORS OF PRESSURE ON THE FRANC --

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ALL SUGGEST THAT THE MOVE AGAINST THE FRANC IS STILL GATHERING STRENGTH. MARKET VOLUME IS HEAVY. THE BANK OF FRANCE REPORTEDLY IS INTERVENING HEAVILY, AND AN INCREASE IN CALL MONEY MARKET RATES IS EXPECTED MOMENTARILY. THE LONDON DOLLAR/FRANC CROSS RATE AS OF NOON WAS 4.8175--4.8275, AND PARIS TRADERS ARE THINKING IN TERMS OF A SUPPORT POINT AT ABOUT 4.85 TO THE DOLLAR.

3. THE PRINCIPAL UNDERLYING REASON FOR THIS WAVE OF FRANC SALES NO DOUBT IS THE POLITICAL OUTLOOK AND THE BELIEF BY MANY IN THE THE FOREX MARKET THAT THE LEGISLATIVE ELECTIONS LOOK TOO CLOSE TO CALL, WITH THE OBVIOUS CONCLUSION THAT IT IS TOO RISKY TO HOLD FRANC POSITIONS. PARIS FOREX TRADERS REPORT THAT RESIDENT FRENCH COMPANIES ARE NOT PARTICULARLY ACTIVE AND THAT FRANC SALES ORIGINATE FROM COMMERCIAL SOURCES OUTSIDE FRANCE. LEADS AND LAGS HAVE NOT DEVELOPED AS YET; AND MANY, PROBABLY MOST PARIS FOREX TRADERS EXPECT OFFICIAL INTERVENTION WILL BE ABLE TO HOLD THE SLIDE AT ABOUT 4.85 FRANCS TO THE DOLLAR.
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